RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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KA-ZOOM! That's what's happening to the US money supply, as the Fed allows a huge flood of dollars to pour into Wall Street. The result is what I call "The Greenspan Bubble," and you really have to wonder what the Fed chief is thinking. Here's what I think Greenspan's thinking: "Japan's Nikkei is near its bear market low again, Brazil is close to a devaluation crisis, Russia has collapsed, Asia remains in deep trouble, Europe's suffering from 10% unemployment -- the US is the only barrier to a world deflationary collapse. So let the avalanche of dollars continue -- as long as gold doesn't rise above 306, let the money supply roar."

I call this market "The Greenspan bubble." But not everybody agrees. For instance, at last week's meeting of the prestigious American Economic Association, leading economists denied the bubble thesis and moved to sooth the frayed nerves of old-timers who have seen this kind of thing before (some of us, I might add, even remember the wild, wild shenanigans of 1968 and its costly aftermath). So relax, nervous old-timers, the "experts" assure us that what we're experiencing is not a bubble.

PRICE ACTION: It is said that "The most bullish thing the stock market can do is go up." Wrong -- the most bullish thing the stock market can do is go up **with other important indicators confirming.** But that's not what's been happening.

According to Dow Theory, a bull market **ends** at the point where the two Averages, Industrials and Transports, record their last highs **together.** That occurred for the bull market on April 16, eight months ago. On that day the Transports hit their bull market high at 3686.02; on the same day the Industrials closed at 9076.54. **At no time since have both Averages been higher.**

Question: OK Russell, eight months have elapsed since the April 16 joint highs in the Industrials and Transports. And four months have passed since the August 4 Dow Theory bear signal. But the earth is still revolving on it axis, the sun still rises in the East, God's still in his heaven, the American public is still buying mutual funds -- and hey, the leading economic indicators jumped six-tenths of 1 percent in November, it's biggest rise in two years. So where's the bear market?

Answer: So far, and I emphasize so far, the early effects of the bear market are in **what has not occurred.** Here's a brief list: Despite new highs in the S&P and Nasdaq -- the broad Value Line

Dec. 31 DJIA 9181.43; PTI 5362; A-D Ratio +5.72
Jan. 8 DJIA 9643.32; PTI 5374; A-D Ratio +5.98
Dow Yield: 1.58%; Dow Price/Earnings: 26.0
Dow 144-day MA: 8666; Dow 34-day MA: 9142
Dow Times Book Value: 6.00; PTI 89-day MA: 5325
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 293

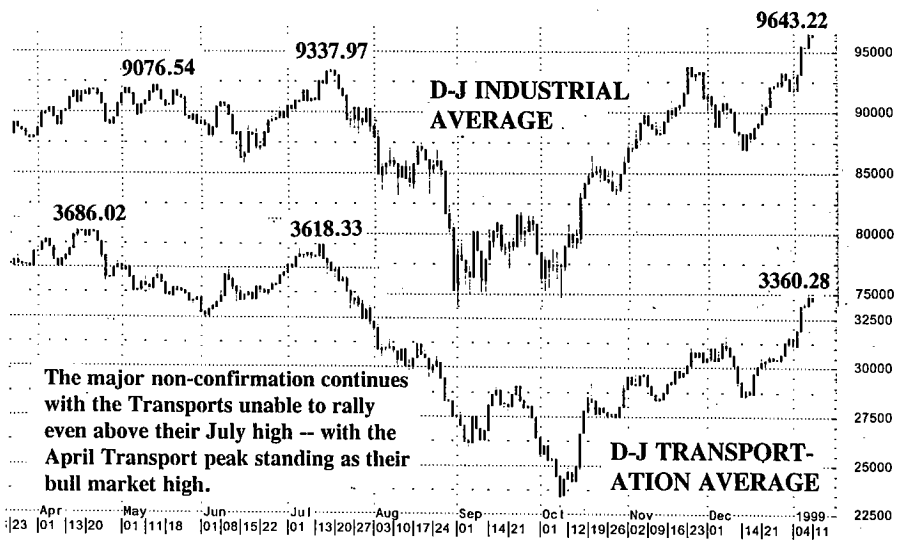
Composite Average is not close to a new high, the Wilshire 5000 failed to hit a new high, the NYSE Composite is not at a new high, the Russell 2000 is not near its high, the D-J Transports and Utilities failed to rise to new highs, and lastly, the advance-decline ratio for the NYSE is far from a new high.

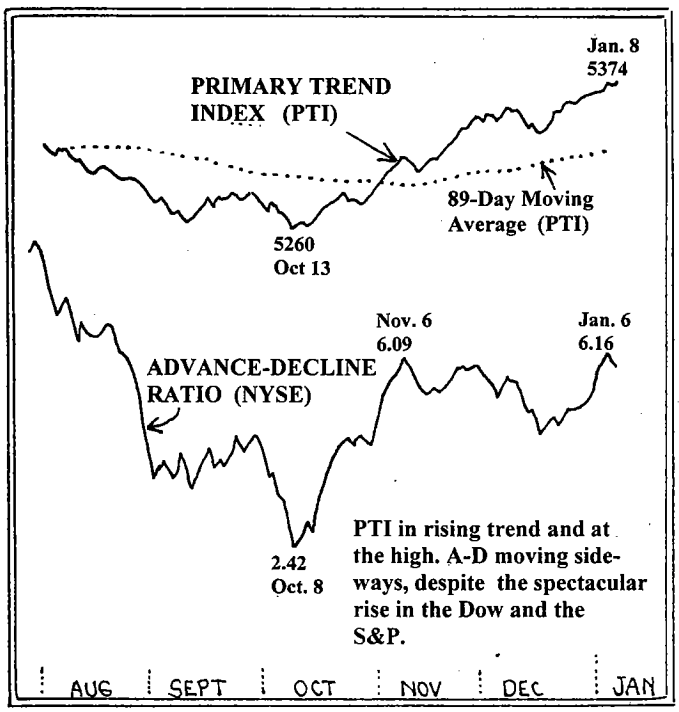
And you have to ask yourself, what force, what strange phenomenon, has kept the **broad** averages, the Transports, the Utilities, and the A-D ratio from confirming the January highs in the large-cap S&P and the large-cap Nasdaq and (last week) the Dow? The answer is the primary trend of the market, the (so-far) subtle power of the bear, which has prevented so many averages and indices from rising to new highs.

In my opinion, we are now barely into the first phase of the bear market. The first phase of a bear market is the one in which the bear removes much of the foam and froth of the preceding bull market's final top. But need I remind you that nothing is ever perfect or totally clear where Wall Street is concerned. So the question may be asked, "If the first phase of a bear market erases the froth of the previous bull market's top, what about the current explosion in any stock with a .com in its name?"

My answer is that we're dealing with the end of the biggest bull market in Wall Street history. A bull market this huge, with this much upward momentum, is not going to turn on a dime, is not going to die in a week, is not going to end at a spear-point peak. No, the end of this bull market is fated to be messy, confusing, extended and hair-pulling.

Nevertheless, the bull is dying. The bull market ended in April and everything since then is the bull struggling mightily to stay alive in the face of a bear that is just starting to emerge from his


9643.22
9337.97
9076.54
D-J INDUSTRIAL AVERAGE
3686.02
3618.33
3360.28
The major non-confirmation continues with the Transports unable to rally even above their July high -- with the April Transport peak standing as their bull market high.
D-J TRANSPORT-ATION AVERAGE
95000
90000
85000
80000
75000
32500
30000
27500
25000
22500
Apr May Jun Jul Aug Sep Oct Nov Dec 1999
23 01 13 20 01 11 18 01 08 15 22 01 13 20 27 03 10 17 24 01 14 21 01 12 19 26 02 09 16 23 01 14 21 04 11



lair. And remember, it's been 25 years (since 1974) since the bear has been in command. That's a long time for the bear to be hibernating. And a bear who's been sleeping that long is going to take his time about waking up and rising to his full strength.

Question: Russell, let's look at it this way. You say the bull market ended last April 16. All right, eight months have passed and the market has not yet collapsed. If we're now in a bear market, why hasn't the market fallen apart?

Answer: The answer is one word -- **liquidity.** In the face of Greenspan's "irrational exuberance" warning, in the face of a surging money supply, the Fed has seen fit to reduce the Fed funds three times while also dropping the discount rate. Actually, what's amazing is that with the money supply climbing off the top of the charts, the broad stock market (meaning the majority of stocks) hasn't done even better. Everybody is aware of the warning which runs, "Don't fight the Fed." Well, the Fed doesn't want the US and the rest of the world to fall apart, and to that end the Fed is allowing the money supply to go through the roof (at a fantastic rate of over 20% annualized for MZM, which is money of zero maturity or spendable money).

Now this is important: As the money supply continues to skyrocket, at some point the bond market is going to swoon. When that happens rates are going to surge, and bond rates (which could hit 6%, 7%, 8% or more) will clash with the almost non-existent dividend yield on stocks. When this happens, well, I don't have to tell you the result. By the way, the bond/stock yield ratio is now a dangerous 4.15 in favor of bonds. I have to wonder how much higher it can go before trouble.

PRIMARY TREND INDEX (PTI): No ifs, ands or buts, the PTI has been in a bull trend, and on January 6 it hit a new record high. As far as the PTI is concerned, there's nothing to be concerned about. The direction for the PTI is up, up and away. So it's not only "don't fight the Fed," it's "don't fight the PTI."

THE PICTURE: On occasion, the antics (let's call it the action) of a particular group of stocks will be so mesmerizing, so fantastic, that it will fire up the entire stock market. That happened in 1930 when "talking" motion pictures came into being. Movies that showed people actually talking! It was a revelation, a miracle. And it resulted in motion picture stocks surging to wild new highs in 1930. The Dow, moving off the bottom created by the great 1929 crash, surged up with the movie stocks. By April of 1930 the Dow had recovered more than two-thirds of its horrendous 1929 crash-losses. During the same period the movie stocks soared to amazing new highs.

My instinct is that the Internet stocks are doing today what the motion picture stocks did during 1930. Yes, I agree, the whole Internet phenomenon is far more fundamental than the talking picture phenomenon. But the result is the same -- the **rest of the market**, inspired by the advances in the newly-favored net stocks, moved steadily higher.

Investors are wondering about the divergence between the S&P and the Dow -- with the S&P being considerably stronger than the Dow. The answer: the S&P has been bolstered by computer and computer-related stocks (the S&P now has AOL in its fold) while the Dow stocks (particularly the big exporters) have been hurt by the troubles in Asia. On top of that, two of the Dow stocks (two of the 30 Dow Industrials are oils) have been hurt by the collapse in the price of oil.

Furthermore, over recent weeks, nine of the 30 Dow Industrials have reported that they expect disappointing fourth quarter earnings. The nine are Merck, Boeing, MMM, Coke, JP Morgan, Caterpillar, Union Carbide, Sears and Proctor and Gamble.

Remember also, that the Dow Average is computed on the basis of price while the S&P is computed on the basis of capitalization (in the S&P the bigger the capitalization of a stock, the more that stock affects the average). During the last 18 months investors have favored a small group of big-cap stocks, and more of them are in the S&P than in the Dow. The following high-powered stocks are in the S&P but not in the Dow -- Microsoft, Intel, Lucent Technologies, Cisco, Dell, MCI, Worldcom, Pfizer and Home Depot.

Amazingly, by the end of November, **only 50 stocks** accounted for half of the capitalization of the S&P 500. This was the greatest bias towards bigness in the S&P in 16 years. One analyst noted that if the S&P was calculated in the same way the Dow is, the S&P 500 would only be up 10.8% through November. The reason is that half of the stocks in the S&P 500 are actually down for the year.

THE DOUBLE: Everyone has their own concept of **values.** Some go by book value, some use earnings, some favor growth trends. I tend to be guided by the **return on investment.** Growth is at best an educated guess, the future of an industry is always a guess. How long upside market momentum will last is a guess. But the return on the investment is a fact. The only variable is how safe that return is, and what effect inflation will ultimately have on that return.

Consider this -- I can buy a 30-year Treasury bond yielding 5.2%, and I have only two worries. (1) Will the dollar collapse, sending interest rates soaring? And (2) will that 5.2% look insignificant if inflation heats up and T-bond yields rise to maybe 10%? I know the government will pay off, even if it has to pay off in inflated mini-dollars, but it will pay off. So the only question is how much inflation will the Fed allow and what's the future of the dollar.

I'll give you a depressing example. During WWII, I took out the famous "GI insurance," which was a $10,000 whole life policy. At that time, $10,000 looked like serious retirement money. I still have my GI policy. It's paid up. But the $10,000 that was important money in 1944 is no longer important; it now amounts to half the cost of a cheap car. Oh yeah, I forgot, the Fed is supposed to guard and defend the value of our money.

However, I still think in terms of -- **"At a given rate of return, how long will it take me to double my money?"** (For the sake of simplicity I disregard taxes in my calculations.)

The time it takes to double your money is one good way of measuring the value of an investment. An easy formula is to take the number 73 and divide it by any given rate of interest. For instance, if we divide 73 by 5.2, which is the current rate on the 30-year T-bond, we get the number 14. Than means that at 5.2% we double our money in 14 years.

Now take the yield on the S&P 500 which is 1.27%. At 1.27% it will take 60 years to double your money. That's a bit long to wait for our money to double, wouldn't you say? Oh, I forgot, "over the long term stocks are bound to go up," so even if we buy today's over-priced stocks with their minuscule yields of 1.2% -- no problem. We'll just buy 'em, and the devil with dividends. Remember, stocks always go higher.

Conclusion: Consciously or unconsciously, I believe that seasoned, sophisticated investors are very aware of this thesis of the time it takes for money to double. At present, the long bond yields 5.30% while the S&P yields 1.27%. This is a ratio of 4.15 in favor of bonds. I've always felt that anytime this ratio rises above 4, stocks are super-overvalued in relation to bonds (and stocks and bonds always compete with each other). Just before the market crashed in '87, the stock/bond ratio was 4. We're above that ratio now.

Comment: I consider that anytime you can double your money (relatively safely) in seven years or less, you are buying major bargains. That means interest rates of 10% or more on T-bonds. For stocks my figure is 12 years. If you can double your money in 12 years or less on stock dividends, stocks are major bargains. It requires dividend yields of 6% or more to double your money in 12 years or less. My prediction: we will see the Dow yielding 6% before this bear market is over.

Why do I make this prediction? Because as a rule, the bigger the bull market and the greater the speculation during that bull market, the greater the bear market that follows. With dividend yields declining to record lows in the bull market, it would seem logical that dividend yields in the bear market will ultimately rise to at least 6%. (God help us if this bear market ends up producing record high yields, but anything is possible following the great orgy of the '90s.)

INVESTMENT POSITION: The market's upward momentum continues unabated. But strangely, the upward momentum is confined to limited areas of the stock market. The Dow hit a new record high last week, but without confirmation from the Transports, the Dow Theory continues to say, "bear market." The bear remains in the box.

One of the hardest things to do in investing is to stick with a valid system. I utilize two systems. I use the **Dow Theory** to define the overall major trend of the market. And I use my **Primary Trend Index** to describe the actual direction of the market on a day-to-day basis. While the Dow Theory is not a pin-point system for "beating the market" on a daily basis, the PTI (which disregards everything but direction) does tell us on a day-by-day basis what the market is doing.

The basis of Dow Theory concerns itself with **values.** Consequently, the current market presents a huge problem for the conservative investor. The conservative investor knows that to buy stocks here is to ignore values. He knows that historically over the years, the Dow has averaged a yield of 4%. But if the Dow was now to yield 4%, it would have to decline by 60%. The conservative investor also knows that a great many bear markets have taken the Dow down to a 6% yield. To go to a 6% yield, the Dow would have to decline to 2533, at which point it would have lost over 70% of its value. Taking all this into consideration, the conservative investor stays out of the market. He decides that it isn't worth the risk to buy stocks which provide literally **no dividend return** on the investment.

Many of my subscribers disregard all data, theories, talk, and analyses, and simply follow the PTI. When the PTI is in a rising trend, as it has been, they buy stocks. When the PTI is in a declining trend, they sell out and move to the sidelines.

Conservative investor, Dow Theorist -- you're watching the show and probably in T-bills. PTI trader, you're in stocks or mutual funds or maybe riding with the net-nuts.

Note: This is from the front page of *Women's Wear Daily,* Dec. 29: "New York: The Internet stock craze is finally hitting the fashion market. Active Apparel Group, a small active-wear company, saw its shares surge 10¼ Monday, to 11½ -- an 820% one-day romp -- after it had launched a Web site." **Russell Comment**: This is as close to insanity as anything I've seen in 45 years in this business.

NOTES & QUOTES: Many months ago I said that when the bear market starts, it's going to be extended, tortuous, erratic. Why? One reason is that the Fed and the central banks of the world will fight the bear "tooth and nail." Which is exactly what has been happening.

The Fed and the world's central banks have obviously agreed that "something is wrong." Since October 1, according to Ed Hyman of *ISI,* **64 central banks have lowered their respective interest rates.** Furthermore, there has been a surge in the world's creation of paper currency.

In the face of a global lowering of interest rates and an accompanying explosion in the creation of paper currency, it is incredible that we have not seen signs of rising inflation. Of course, such signs may come in 1999. But, so far, it would seem that the forces of over-production and deflation have been **even stronger than the forces of inflation.** It is also extraordinary that with all the inflationary activity of the central banks, the breadth of the market has not been able to turn positive (i.e., since April more stocks on the NYSE have declined than advanced; it's been even worse on the Nasdaq).

These paragraphs from the December 23 *International Herald Tribune* tell the story: "Japan has a **staggering over-capacity** in a vast array of industries, dotting the landscape with more bank branches, gas stations, construction companies and automakers than the nation and its global customers can support profitably. The excess is the legacy of the nation's once successful export-driven strategy to become a global economic powerhouse. But since the end of the Cold War, Japanese exporters have had to face a host of new competitors as many developing nations have pursued export-led economic growth strategies. Meanwhile, demand for Japanese exports has shriveled for more than a year because of continuing economic crises afflicting several Asian nations. As a result, the Japanese economy continues to shrink, depriving other Asian nations of a critical market for their exports, prolonging the financial turmoil in the region and threatening the global economy."

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The December 19 *Economist* (the "Christmas Double Issue") headlines it, "A Bad Time to be an Ostrich." "After the turbulence of 1998," asks the *Economist,* "can anything be considered unthinkable? Two years ago many people would have

counted an Asian economic collapse as unthinkable. A year ago, before the sudden fame of Monica, so too would have been a vote to impeach Bill Clinton, or, indeed, widespread calls for his resignation. Oil at $10 a barrel? Bill Gates on the defensive? The fall and then private-sector rescue of Long-Term Capital Management? George Soros arguing that speculators should be restrained? The conclusion seems inescapable: if you are taking something for granted, don't."

The *Economist* then lists four items that are taken for granted but that "the West may be kidding themselves about: (1) China will not break up. (2) Democracy is on the march. (3) Shares (stocks) are the best long-term investment. (4) There's no need to worry about nuclear war."

Russell Comment: I ended the last issue of *Dow Theory Letters* with the prediction that 1999 would be "a year of surprises." Frankly, 1998 provided more surprises than even I thought would materialize. Now I'm predicting that 1999 will also be a year of major surprises. To narrow the choices, I'm predicting that the biggest surprises in '99 will come from Wall Street.

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Speaking of surprises, I tuned in on the C-Span coverage of a major Y2K meeting. All the experts were there from Peter de Jegar to Edward Yardeni to Senator Bill Bennett. What I heard froze my blood. Here is the essence: (1) The problem is going to be **major** and it's going to hit big time. (2) Asia and many overseas nations are far from being Y2K compliant; many top Asian CEOs haven't begun to address the problem. The US is well ahead of the rest of the world. (3) Yardeni likened the situation in seriousness to 1973-'74 on Wall Street. He expects the stock market to drop at least 30%. (4) Even if a corporation is Y2K compliant, its suppliers may not be. The further down the corporate scale you go (meaning small corporations and mom-and-pop businesses, and there are millions of them) the worse the situation. (5) Even if a corporation states that it is compliant, it may not be. It will take many tests to prove that it is compliant. (6) A big problem will be "the food chain." The food chain is populated by millions of small businesses, and few of these are even aware of the Y2K problem. (7) The crux of the conference was that nobody knows the extent of the Y2K problem, it's too huge, it's too pervasive, it involves maybe 40 million computers, and it's a global problem. (8) It was stressed nobody with "high visibility" is in the position of warning the nation about the Y2K problem. Al Gore is the obvious candidate, but he is avoiding it. The experts likened Y2K in seriousness to a war. The difference is that Y2K "is not sexy, and it's a year away." Therefore, it doesn't feel like an emergency. But it most definitely IS an emergency. **Note:** A recent *USA Today/National Science Foundation* poll shows that 54% agree with the statement, "Y2K will cause only minor disruptions and inconveniences. Furthermore, 61% say they expect either no problems or only minor problems, up from 48% in June." **Russell Comment:** That's scary.

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You think you had a lousy year? Ponder this regarding **Merrill Lynch** (whose capitalization has just been passed by Schwab): Merrill reached a $400 million settlement to end the Orange County lawsuit. Merrill reported a fourth quarter profit of $124 million compared with $502 million in the '97 third quarter. Merrill has recently cut 3,400 jobs, and on top of everything else Merrill had to come up with $300 million to rescue Long-Term Capital Management (Merrill was an investor in LTCM).

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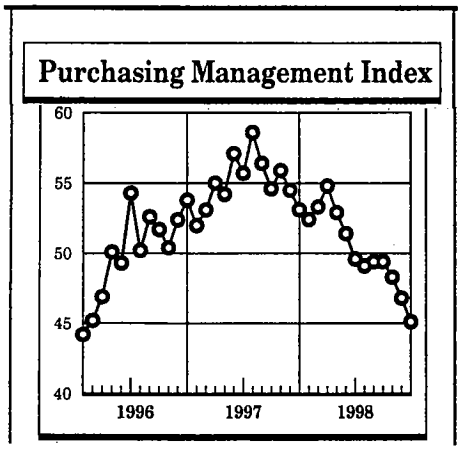
US manufacturing had its weakest month in December since the end of the last recession in 1991. Production slumped, factories cut jobs and weak demand hurt prices. This chart (*WSJ*) shows the picture: anything below 50% shows that the number of manufacturers reporting deteriorating business is greater than the number reporting improving business. Question: In view of this chart, why have stocks held up? Answer: We're seeing a **classic all-out battle between Fed-sponsored liquidity and declining business.** The surging liquidity keeps money coming into Wall Street. The lousy business outlook keeps the majority of stocks (breadth) on the downside. But liquidity can't solve the basic problem of world over-capacity. And the bear continues to smile.



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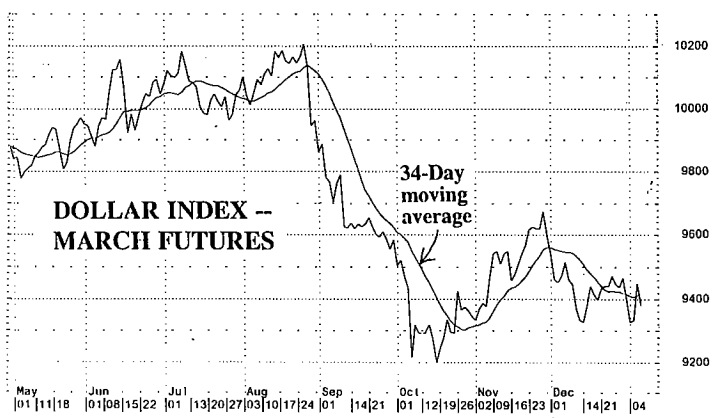
The euro is here. The Japanese government, and some US economists, have proposed that Europe, the US and Japan set exchange rate "target zones" so as to reestablish the stable international currency relationships that existed under Bretton Woods. The system ended when the US reneged on its gold promise and "floated" the dollar in 1971. Washington refused any international stabilization efforts and will follow the neo-liberal orthodoxy of the past two decades which says that only the market can decide a currency's value. Therefore, the dollar, the yen and the new euro will float against each other. Problem for the US: the European economies enjoy a trade surplus, while the US has an annual trade deficit of $200 billion -- plus the US owes a trillion dollars abroad. If enough people and nations decide to hedge their investments, there could be a run on the dollar. It's well to remember that the US has had a picnic for years, in that it could run up its debts and then pay off those debts with dollars that it manufactures. The US could also take in merchandise (imports), and pay for them with its paper. This "gift" has galled Europe for years. Europe's revenge may be the euro. For this reason, it is imperative to monitor the forthcoming trend of the dollar, and I show the Dollar Index below:



There are some valid arguments in favor of dollar strength against the euro. Listen to Paul Erdman, writing out of *Bloomberg* magazine: "Here we come to the crux of the problem. Will the euro prove to be a better store of value than the dollar? I strongly doubt it. Socialists are in control of a majority of EU governments. Their number one target will be to drastically reduce Europe's 10% unemployment rates through government subsidization of massive employment schemes, even if this requires rising deficits. When the markets perceive what is happening, the dollar, blessed with very low American unemployment, low inflation, and massive budget surpluses, will rise again." Erdman then cautions investors not to move out of dollar denominated securities and into euro securities.

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The Net: Analysts are debating the worth of the Internet stocks. Many make the case that the net-stock explosion is the biggest case of "mania" in Wall Street history. Bob Farrell, senior investment advisor at Merrill, states, "If you were looking for something that was a fitting finale to the biggest bull market in history, it would be the biggest speculative mania -- and that's what it does look like." Example, at last week's close AOL had a market value of $72 billion, larger than GM, Gillette or Pepsi. Shares of eBay, which had 3rd quarter revenues of only $12.9 million, had a market value of $11 billion, exceeding Federated Dept. Stores, with third-quarter revenues of $3.6 billion. **Russell Opinion:** Nobody's down-grading the importance of the Internet. But the problem, as I see it, is that it's **so easy to have a web presence.** Example: If you want to open a store selling housewares, you've got to rent space in a good location, hire help, bring in inventory, built showcases, etc. But for very little you can open a web site to sell the same housewares, and your initial costs are minimal. Anybody with limited capital can get a web site. And it's only a matter of time before **everybody,** every corporation, will be on the net. **The competition will be fierce,** and consumers will have vast numbers of choices in every area. Currently, net stocks are being priced as if they were valuable individual monopolies. And they aren't. It will be a while before we really know what these net stocks are all about. **Note:** Buy.com sells books and computer products at a **loss** in order to make money on advertising.

Yes, I do read "letters to the editor" in newspapers and magazines. Below is one from the latest *Business Week* that had me thinking. And I'm thinking, this guy's right. The net is supposed to **eliminate** the middleman. But AOL and Amazon are simply "middlemen" themselves. A year from now a book comes out. Instead of using Amazon, I net to the actual publisher, get his rock-bottom price, he shoots the book out to me, and who the heck needs Amazon.com? Believe me, the story of the high-flying net stocks is far from over. In fact, it's just starting, and nobody knows where it will be six months or a year from now.

> "Internet middleman" is redundant. The competitors that will drive Amazon out of business are not Barnes & Noble and the like. Rather they are the Web sites of the publishers whose books Amazon sells, and the Internet itself. Using extensible markup language and other improved search technologies, would-be book buyers and publishers will find each other without Amazon's help. Publishers can easily beat Amazon on speed and price and will increase their profit margins greatly in the process. It is not traditional stores that are in danger from the Internet; it is all middlemen. Online middlemen like Amazon will enjoy a brief window of success only until search technology catches up.
>
> John T. Reed
> Alamo, Calif.

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Are we returning to the '40s? Looks like swing and swing dancing are coming back. And (happily) folk singing is coming back. How do I know? Wife Faye just returned from Sam Goody's with new CDs by Jewel, Sheryl Crow, the Dixie Chicks, Mariah Carey and Sarah McLachlan. Mmm, all women.

This brings me to the subject. I think the 21st century will be known as "The Century of the Woman." Ireland just elected its first woman president. All five top jobs in the state of Arizona are now held by women. US medical schools and law schools now have more women attending than men. As a matter of fact, US colleges and universities now have more women attending than men. More women are now getting PhDs than men. In the end, **education rules.** I'm serious; women, down-trodden women (who only got the vote in the US in 1920) are gaining steadily in power and influence (after all, women were responsible for Clinton getting elected -- and I may never forgive them for that). But prediction -- there'll be a woman US President in the next 20 years, or maybe after the next election (and I'm all for it, after all, men have had their chance, and look how they've messed up). Latest: Elizabeth Dole will probably be running for President in 2002. She's smart, capable, and will get my vote. Rumor is that Hillary Clinton is readying to compete for retiring Daniel Moynihan's New York Senate seat (and I thought we'd be finished with the Clintons).

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The *New York Times'* Gretchen Morgenson gave Fed Chief Alan Greenspan the "Party Animal of the Year" award. She writes, "To Alan Greenspan. Who knew that the man who warned investors about irrational exuberance in the stock market in 1996 would work so hard 3,000 Dow points later to keep the party going? Mr. Greenspan's three successive interest rate cuts this autumn and explosive increase in the money supply meant that investors partied big-time late in 1998."

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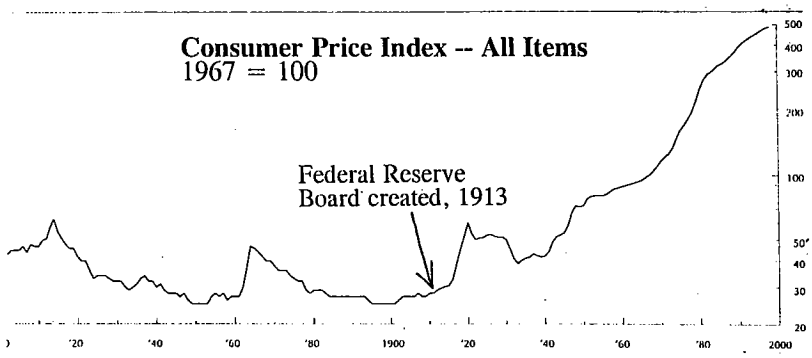
As for the Fed, which is supposed to guard the value of our money, this chart (courtesy of the *American Institute for Economic Research* out of Great Barrington, Mass. 01230) makes me livid. The Federal Reserve was created in 1913. As you can see, prior to that date prices held within a limited range, and for over 100 years there was not a major change in the value of the dollar. Since the Fed creation, the value of the dollar has collapsed. Why? Because the Fed can create dollars, and that's what they've done -- times a billion or a trillion or who knows what. They've flooded the US and the world with dollars, and as a result, well, you know the rest.



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Tax-wise, I've always felt that the US government gives us only one "gift." That gift is the right of everyone to give away up to $10,000 each year to as many people as possible. In that way, you can reduce the taxable value of your estate. But fewer than half the elderly wealthy who could be subject to the estate tax give away as much as $10,000 in gifts. And even many of those givers neglect to take full advantage of the tax-free gifts, which can total $10,000 a year to each child or grandchild (a couple can give $20,000). Why the reluctance? **(1)** Many of the wealthy feel they'll need the money for later health care for themselves. **(2)** More important, many of the wealthy simply can't give up control of their money. Example: Why doesn't Warren Buffett (worth $45 billion) or Bill Gates (worth $50 billion) give away billions while they are alive and while they can do some good early? Each of them could give away multi-billions and still eat steak every night (plus they could enjoy the good they do now, while they are still alive). Why do they hang on to so many billions? My guess - power and control.

* *

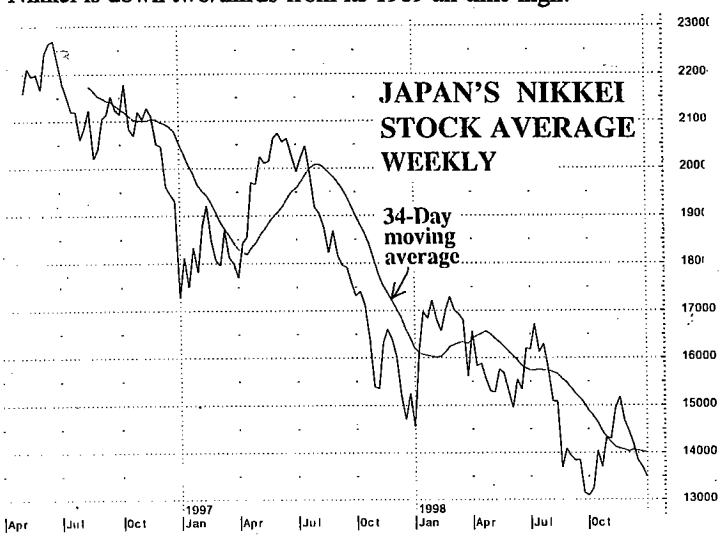
The most recent Gallup Poll asked Americans to name the man and woman they most admire. You guessed, it -- Bill and Hillary Clinton. I give up. Democracy depends on an informed electorate. Can this nation survive?

* *

I shake my head in wonder. I just received that latest *Outlook* publication from S&P. Their year-end issue recommends 26 "top-pick" stocks for 1999. Of the 26, 15 have zero dividends, five have dividend yields of 1% or less and only one boasts a dividend yield of as much as 2.8%. So I ask myself, "Is this investing or hoping?" And remember, this isn't some fly-by-night outfit, this is S&P.

* *

Asia is not going to come out of its recession/depression until Japan's economy starts to recover. Amazingly, as this is written Japan's Nikkei stock average is only a few percentage points away from its October '98 closing low of 13075. Currently, the Nikkei is down two/thirds from its 1989 all-time high.



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San Diego may be at "the lowest end" of California, but it produces some good people. Heisman Trophy winner Ricky Williams (Univ. of Texas) is from SD as is Terrell Davis, Denver's MVP out of last year's Super Bowl (Terrell and Marcus Allen went to the same high school). Then there's San Diego's David Wells (Yankees), he of last year's "perfect game." I used to see Whoopie Goldberg, singing and joking and hanging out in local SD folk theatres. Now, we have Jewel, who spent years waiting on tables and singing at folk places here in SD. Jewel's latest CD surpassed releases by Mariah Carey and Whitney Houston (all three released together on Nov. 17). The Jewel CD, in just three weeks, has qualified for double-platinum status. Two weeks ago, famed fighter, Archie Moore, of San Diego, died. Archie's problem was that nobody was willing to fight the famed "mongoose." Once, back in the '70s, I rode my motorcycle down to Archie's place. Archie was always hospitable and we talked fighting for half the afternoon (I was a big Archie Moore and Ray Robinson fan). At the end I asked Archie if he wanted to take a ride (on the back of my bike). Said Archie, "Are you crazy, man. I'd rather fight 50 rounds than ride on that thing."

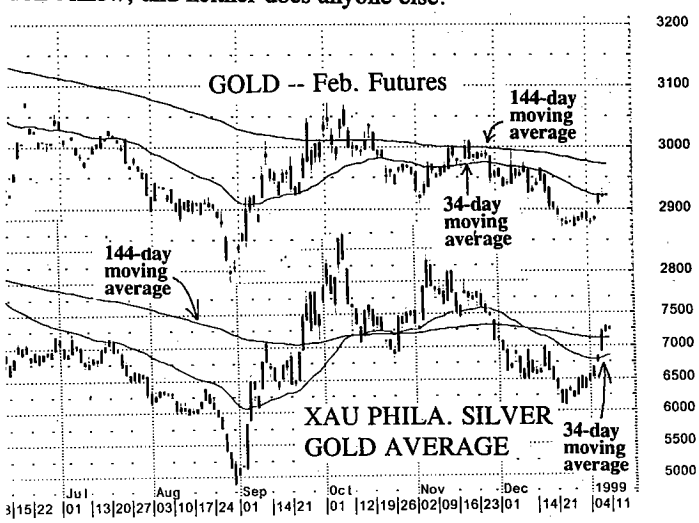
* *

The *Economist* (Jan. 2) on the Impeachment of our President: "With every day that passes, matters get worse. The country is drifting along in a state of neglect. Legislative programs are unheard of . . . The political atmosphere is as poisonous as it has been since the 1960s . . . Everyone wants this horror -- and horror is not too strong a word -- to end. Had Mr. Clinton resigned in August, when he was forced to admit that he had lied to his family, his colleagues and the American people, he could have finished it there. He could still do so; and would do so if he were capable of shame or had any sense of honor. But Mr. Clinton is even less inclined to resign today than he was before his impeachment. The vote to impeach was so partisan that it has rallied even wavering Democrats behind him, and has hitched the polls a few points higher in his favor. Where even the intimation of impeachment shattered Nixon, it has strengthened Bill Clinton. He will cling on to the last."

GOLD: I'm showing charts of gold (Feb. futures) and XAU, the widely-watched Phila. Silver/Gold Stock Average. It would seem that both gold and the XAU (hopefully) have undergone successful tests of their late-August lows. The obvious question now is can these two advance above their moving averages?

For gold, its first target is its 34-day MA which now stands at 292. As this is written, gold is literally sitting on its 34-day MA, but it has not risen decisively above it. XAU has now rallied above both moving averages, and hopefully is leading gold.

Greenspan is an old gold-phile, and although he has evidently "sold out" as far as wanting gold as backing for the dollar, he still follows gold closely. Greenspan also knows the implications of a bull market in gold, and believe me, a bull market in gold is the last thing in the world he wants to see. But the free market is a heck of a lot more powerful than Greenspan, so the question is -- with the US money going up like gang-busters, why hasn't gold moved up? My answer is that, so far, the forces of world deflation have been so powerful that they have cancelled out the re-inflation efforts of the Fed. How will it all end? I honestly don't know, and neither does anyone else.



LATE NOTES: The **PTI** opens the week (Dec. 11) at 5374 -- at the high. However, the A-D ratio is another story. The **A-D ratio** (see page 2 chart) has so far, recouped only one-third of its April 3 to October 8 losses. On Jan. 6 the A-D rose to a laboring recovery high of 6.16. However, as you can see on the page 2 chart, the Jan. 6 peak was barely above the peak recorded back on Nov. 6. Thus, the progress of the **majority** of stocks on the NYSE has been dismal, despite the huge advances in the Dow, the S&P and the Nasdaq.

In the background we have stock market fever, the entrance of the euro as competition for the dollar, the surging US money supply, the chronically negative US trade balance and the weak dollar (the dollar particularly weak against the rising yen). **All of this has impacted on US bonds.** On Monday, Jan. 11, the Feb. T-bond contract gapped down below major support at 124 21/32nds, sending the yield on the 30-year Treasury bond surging above 5.32%. Thus, the stock/bond yield ratio has become **wildly out-of-kilter** -- with the return on stocks absurdly expensive compared with bonds. It could be that bonds will be the instrument that will prick what I call "the Great Greenspan Stock Market Bubble." **Note:** Remember a few months ago when all the "experts" were predicting lower interest rates?